

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the County's annual financial report provides a narrative overview and analysis of the financial activities of the County for the year ended June 30, 2003. We hope that the information presented here, in conjunction with the Letter of Transmittal, provides you with a clearer picture of the County's overall financial status. Unless otherwise indicated, all amounts in this section are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- The total net assets increased by \$675,209, or 25% as compared to last year's.
- The total long-term debt decreased by \$88,010, or 6% during the current fiscal year.
- As of the close of the fiscal year, the County's governmental funds reported combined ending fund balances of \$1,814,282, an increase of \$95,140, or 6% in comparison with the prior year.
- At June 30, 2003, unreserved fund balance in the General Fund was \$159,684, or 7% of total FY 2002-03 expenditures of \$2,206,647.
- General Fund revenues and transfers ended the year 5% below budget.
- General Fund expenditures ended the year 13% below budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

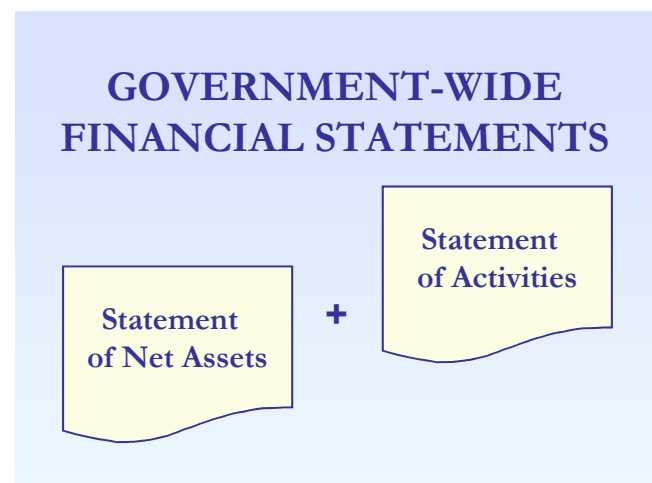
The basic financial statements presented in the County's CAFR have been divided into three different sections:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Government-wide Financial Statements

The government-wide financial statements consist of the following two financial statements: the Statement of Net Assets and the Statement of Activities. Both of these statements were prepared using accounting methods similar to those used by private-sector companies, the economic resources measurement focus and the accrual basis of accounting. The **Statement of Net Assets** provides information regarding all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. The **Statement of Activities**, on the other hand, provides

information on how the government's net assets changed during the most recent fiscal year regardless of the period when the related cash or cash equivalent is received or paid. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).



The Statement of Net Assets and the Statement of Activities distinguish functions of the County that are principally supported by taxes (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include (1) general government, (2) public protection, (3) public ways and facilities, (4) health and sanitation, (5) public assistance, (6) education, and (7) recreation and cultural services. The business-type activities of the County include airport and waste management.

The government-wide financial statements also provide information regarding the County's component units, entities for which the County (the primary government) is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the County's operations, and therefore, data from these component units are combined with data of the primary government. Financial information for the Orange County Children and Families Commission, a discretely presented component unit, is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements

- **Fund** – a separate accounting entity with a self-balancing set of accounts.
- Focus is on major funds.
- Provides information regarding the three major categories of all County funds: governmental, proprietary, and fiduciary.

The fund financial statements report on groupings of related funds that are used to maintain control over resources that have been segregated for specific activities or objectives. A fund is a separate accounting entity with a self-balancing set of accounts. Like other state and local governments, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of governmental and proprietary fund financial statements is on major funds as determined by the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 34 *“Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments,”*

(“GASB 34”). All of the County funds can be divided into three major categories of funds: governmental, proprietary, and fiduciary.

Governmental funds - Governmental funds include most of the County’s basic services and are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements are prepared using the **current financial resources measurement focus** and **modified accrual basis of accounting**.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Reconciliations are prepared for both the governmental funds’ Balance Sheet and the governmental funds’ Statement of Revenues, Expenditures, and Changes in Fund Balances to facilitate comparisons between governmental funds and governmental activities. The primary differences between the government-wide and fund financial statements relate to noncurrent assets, such as land and structures and improvements, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund financial statements.

In FY 2002-03, an increase of \$625,022 in net assets in the government-wide financial statements was reported, while an increase of \$95,140 in fund balance was reported in the fund financial statements. The

primary reason for the difference is attributed to a donation of the Seven Oaks Dam, an infrastructure capital asset valued at approximately \$425,000. Donated capital assets are not reported in the fund financial statements. Refer to the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" for additional details on the factors contributing to this difference.

The County maintains several individual governmental funds organized according to their type (General Fund, Special Revenue, Debt Service, Capital Projects and Permanent Funds). Information is presented separately in the governmental funds Balance Sheet and in the Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is always a major fund, and all other major funds. Information for nonmajor funds is presented in the aggregate in these statements. Individual fund data for each of the nonmajor governmental funds is presented elsewhere in this report. The County adopts an annual appropriated budget for its governmental funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with the budget.

Proprietary funds - The County maintains two different types of proprietary funds: Enterprise Funds and Internal Service Funds. **Enterprise Funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its Airport and Waste Management operations. **Internal Service Funds** are used to accumulate and allocate costs internally among the County's various functions such as insurance services, transportation, publishing, and information technology. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Airport and Waste Management operations, which are both considered to be major funds of the County. Conversely, the Internal Service Funds are combined into a single, aggregated presentation in the proprietary funds financial statements with the individual fund data provided in combining statements, which can be found elsewhere in this report.

Fiduciary funds - Fiduciary funds include the **Trust** and **Agency** funds and are used to account for assets held on behalf of outside parties, including other governments. Financial information for fiduciary funds is not reported in the government-wide financial statements because the resources of these funds are not available to support the County's programs. The combining statements for fiduciary funds are included elsewhere in this report.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. To find a specific note, refer to the Table of Contents.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the County's financial position. At June 30, 2003, the County's combined net assets (governmental and business-type activities) totaled \$3,364,749, an increase of 25% from FY 2001-02.

The largest component of the County's net assets (74%) was **invested in capital assets, less any related outstanding debt** used to acquire those assets. Capital assets include land, structures and improvements, equipment, construction in progress, and infrastructure that are used to provide needed services to the citizens of the County. Since the capital assets themselves cannot be used to liquidate the associated debt, the resources needed to repay the debt must be provided from other sources.

COMPONENTS OF NET ASSETS

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

\$1,262,490 of the County's net assets (38%) are **restricted**. This means that these resources are subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws/regulations of other governments, or restrictions imposed by law through constitutional provisions or legislation, including those passed by the County itself.

The final component of net assets is **unrestricted net assets**. Unrestricted net assets are resources that the County may use to meet its ongoing obligations to citizens and creditors. As of June 30, 2003, governmental activities showed a negative amount of \$374,852 in unrestricted net assets. The deficit balance shown for unrestricted net assets was caused primarily by the County's election to settle bankruptcy-related debt according to the Modified Second Amended Plan of Adjustment, and is not a reflection of the County's lack of resources to meet its ongoing obligation to the citizens and creditors. Please refer to Note 9, Long-Term Obligations, for more details of this Plan. Additional causes of the unrestricted net assets deficit are the increase in compensated employee absences due to the negotiated annual leave plans, increased pension costs as well as cost of living salary increases.

The following table presents condensed financial information derived from the government-wide Statement of Net Assets.

NET ASSETS – Primary Government

June 30, 2003
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
ASSETS						
Current and other assets	\$ 2,552,793	\$ 2,443,477	\$ 524,901	\$ 515,615	\$ 3,077,694	\$ 2,959,092
Capital assets	2,271,150	1,802,389	489,045	463,252	2,760,195	2,265,641
Total Assets	4,823,943	4,245,866	1,013,946	978,867	5,837,889	5,224,733
LIABILITIES						
Long-term liabilities	1,677,495	1,686,430	382,780	400,663	2,060,275	2,087,093
Other liabilities	355,287	393,297	57,578	54,803	412,865	448,100
Total Liabilities	2,032,782	2,079,727	440,358	455,466	2,473,140	2,535,193
NET ASSETS						
Invested in capital assets, net of related debt	2,183,152	1,703,213	293,959	240,969	2,477,111	1,944,182
Restricted	982,861	826,217	279,629	282,432	1,262,490	1,108,649
Unrestricted	(374,852)	(363,291)	--	--	(374,852)	(363,291)
Total Net Assets	\$ 2,791,161	\$ 2,166,139	\$ 573,588	\$ 523,401	\$ 3,364,749	\$ 2,689,540

The following table provides summarized data of the government-wide Statement of Activities.

CHANGES IN NET ASSETS – Primary Government

For the Year Ended June 30, 2003

(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
REVENUES						
Program Revenues:						
Charges for Services	\$ 431,151	\$ 388,128	\$ 191,188	\$ 180,382	\$ 622,339	\$ 568,510
Operating Grants and Contributions	1,545,050	1,438,646	10,494	1,637	1,555,544	1,440,283
Capital Grants and Contributions	510,311	44,185	16,374	1,610	526,685	45,795
General Revenues:						
Property Taxes	303,436	292,894	--	--	303,436	292,894
Other Taxes	51,694	7,917	--	--	51,694	7,917
Grants and Contributions not Restricted to Specific Programs	22,707	58,614	--	--	22,707	58,614
State Allocation of Vehicle License Fees	178,446	172,916	--	--	178,446	172,916
Other General Revenues	64,453	85,123	537	15,858	64,990	100,981
Total Revenues	3,107,248	2,488,423	218,593	199,487	3,325,841	2,687,910
EXPENSES						
General Government	193,192	182,237	--	--	193,192	182,237
Public Protection	892,817	863,159	--	--	892,817	863,159
Public Ways and Facilities	74,561	82,893	--	--	74,561	82,893
Health and Sanitation	441,047	430,954	--	--	441,047	430,954
Public Assistance	740,794	718,016	--	--	740,794	718,016
Education	29,108	28,583	--	--	29,108	28,583
Recreation and Cultural Services	70,273	70,875	--	--	70,273	70,875
Interest on Long-Term Debt	53,853	125,664	--	--	53,853	125,664
Airport	--	--	75,770	75,446	75,770	75,446
Waste Management	--	--	79,217	72,652	79,217	72,652
Total Expenses	2,495,645	2,502,381	154,987	148,098	2,650,632	2,650,479
Excess (Deficit) before Transfers	611,603	(13,958)	63,606	51,389	675,209	37,431
Transfers	13,419	19,606	(13,419)	(19,606)	--	--
Increase in Net Assets	625,022	5,648	50,187	31,783	675,209	37,431
Net Assets - Beginning of the Year	2,166,139	2,160,491	523,401	491,618	2,689,540	2,652,109
Net Assets - End of the Year	\$ 2,791,161	\$ 2,166,139	\$ 573,588	\$ 523,401	\$ 3,364,749	\$ 2,689,540

As of June 30, 2003, the County's net assets increased by 25%, or \$675,209, during the current fiscal year. Revenues for the year totaled \$3,325,841, an increase of \$637,931 from the previous year and expenses totaled \$2,650,632, an increase of \$153.

The increases in the County's net assets are explained in the governmental and business-type activities discussion on the following page:

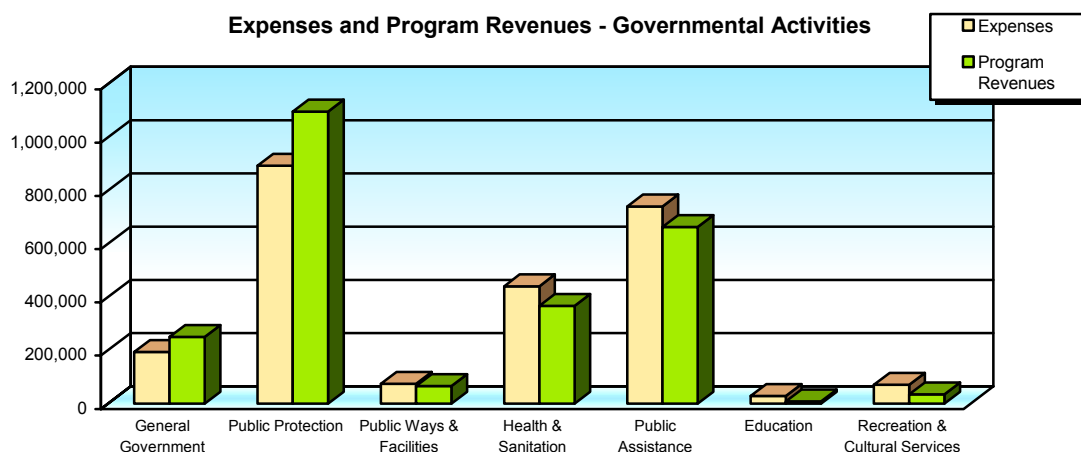
Governmental Activities

The County's governmental activities rely on several sources of revenue to finance ongoing operations. Operating Grants and Contributions comprised the largest revenue source for the County followed by Capital Grants and Contributions. Operating Grants and Contributions are monies received from parties outside the County and are generally restricted to one or more specific programs such as the State and Federal revenues for public assistance and for health care. Capital Grants and Contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct, or renovate capital assets associated with a specific program. An example of Capital Grants and Contributions is a State grant to finance the construction of a new jail.

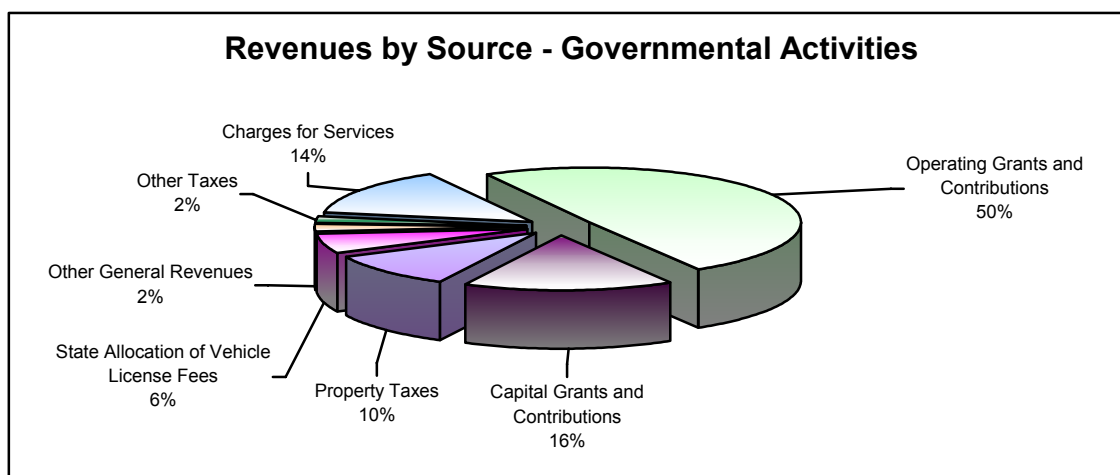
At the end of FY 2002-03, total revenues for the governmental activities, including transfers from the business-type activities were \$3,120,667, showing an increase of \$612,638 from the previous year. Expenses totaled \$2,495,645, showing a decrease of \$6,736 from the prior year. The majority of these expenses were spent on Public Protection and Public Assistance. Governmental activities increased the County's net assets by \$625,022, accounting for 93% of the total growth in the net assets of the County. Key elements of the increase are as follows:

- Capital Grants and Contributions increased by \$466,126, mainly due to the contribution of the Seven Oaks Dam from the US Army Corps of Engineers.
- Interest on Long-term Debt decreased by \$71,811, or 57%, due to (1) a correction of an estimate in accruing interest expense associated with long-term debt reported in the FY 2001-02 Statement of Activities; (2) an oversight in implementing the new financial reporting model in FY 2001-02 by not excluding governmental fund interest expense related to prior years in the FY 2001-02 Statement of Activities and (3) a decrease in interest expense paid or recognized in FY 2002-03 as a result of declining long-term debt balances. Once the corrections are taken into consideration, interest expense on Long-term Debt remained fairly constant at approximately \$70,000.
- Charges for Services increased by \$43,023, or 11%, mainly due to (1) developer fees; (2) primary and general election services to local agencies; (3) fines and reimbursements for environmental fraud cases and law enforcement service contracts.
- Operating Grants and Contributions increased by \$106,404. The most significant cause is a \$29,362 increase in pension obligation bonds and revenue bonds as the result of recognizing the difference between book value and fair value of investments, in accordance with GASB Statement No. 31 *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"*. The remaining increases were the result of a large number of small increases to various grants and programs.
- Property taxes increased by \$10,542, or 4%, due to an increased number of home purchases as a result of low housing interest rates.
- State Allocation of Vehicle License Fees increased by \$5,530, or 3% resulting from strong vehicle sales throughout the State despite the slowing economy.

The following chart presents a comparison of expenses by function and the associated program revenues for governmental activities.

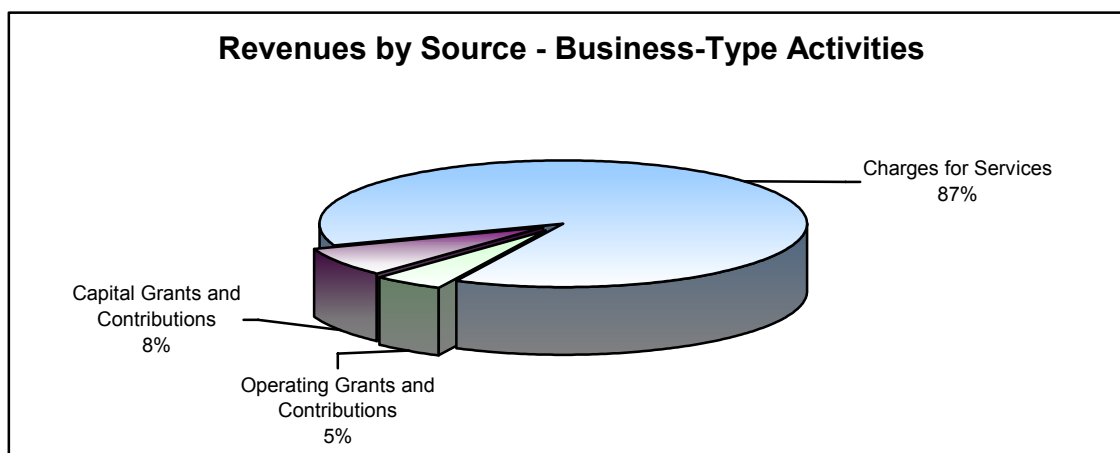


The chart below presents the percentage of total revenues by source for governmental activities.



Business-Type Activities

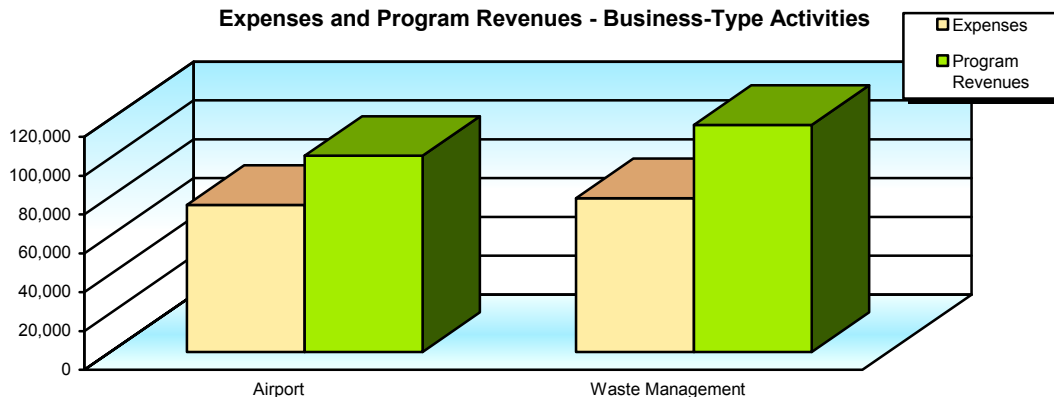
The County has two business-type activities: Airport and Waste Management. In keeping with the intent of recovering all or a significant portion of their cost through user fees and charges, business-type activities reported Charges for Services as their largest source of revenues. Operating Grants and Contributions, as well as Capital Grants and Contributions, were the other revenue sources for Airport and Waste Management activities. Capital Grants and Contributions include revenues received from the Federal Aviation Administration (FAA) for use in airport construction projects.



At the end of FY 2002-03, business-type activities reported total revenues of \$218,593, an increase of \$19,106 from the prior year. Expenses, including transfers to the governmental activities, totaled \$168,406, resulting in an increase of \$702 from the previous year. The program revenues (Charges for Services, Operating Grants and Contributions, and Capital Grants and Contributions) financed the majority of expenses recorded for the business-type activities. Other factors concerning the finances of the County's two enterprise funds are discussed in the Proprietary Funds section of the "Financial Analysis of the County's Funds." At the end of FY 2002-03, there was an increase of \$50,187 in net assets as compared to an increase of \$31,783 in FY 2001-02. Key elements for the increase are as follows:

- The receipt of several FAA grants amounting to \$13,399.
- A \$1,360 land donation.
- A \$3,994 increase in the amount of tonnage of solid waste disposed at the landfills.

The following chart shows expenses by function and the associated program revenues for the business-type activities.



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County uses fund accounting to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Governmental Funds

Governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Such information may be useful in evaluating the County's near-term financing requirements.

In particular, unreserved fund balance may serve as a valuable measure of the government's resources that are available for spending at the end of the fiscal year. This amount is available for spending at the discretion of the County's Board of Supervisors in order to achieve the established function of the respective funds. Other than the General Fund, all other County funds are restricted for the particular purpose that each fund was established for. For example, special revenue funds have either legal or operational requirements to restrict expenditures for specified purposes, and debt service funds are restricted for payment of principal and interest on general long-term debt. Commitments by the County related to executory contracts for goods or services are recorded and established as reservations of fund balances in the governmental funds.

At June 30, 2003, the County's governmental funds reported total fund balances of \$1,814,282 with an increase of \$95,140 in comparison with the prior year. Of the total fund balances for the governmental funds, \$771,139 (43%) constitutes *unreserved fund balances*.

A significant amount of these unreserved fund balances (approximately \$ 348,806) are designated by the Board of Supervisors for the following uses in the next fiscal year and are deemed to be restrictions, commitments, or limitations, which affect the availability of fund resources in the next fiscal year:

Funds

General Fund

Planned Uses of Unreserved Fund Balances

- Improvements at Juvenile Hall, deferred maintenance projects, Americans with Disabilities Act (ADA) improvement projects, weapons screening improvements at four Orange County Justice Centers and seismic retrofit improvements at the County Central Garage.

<u>Funds</u>	<u>Planned Uses of Unreserved Fund Balances (Continued)</u>
Roads	- Property acquisition connected to the expansion of El Toro/Avenida De la Carlota intersection and expansion of Alton Parkway, construction and maintenance projects including Moulton Parkway in Lake Forest, Katella Avenue, portions of Irvine Avenue and maintenance of traffic signals, sidewalks and storm drains.
Tobacco Settlement	- Health care services for seniors and persons with disabilities, emergency room physicians and on-call specialists, tobacco related disease prevention and control, nonprofit community clinics, reimbursement to hospitals for charity care, and drug/alcohol rehabilitation program at the Theo Lacy Jail.
Refunding and Recovery Certificates of Participation (COPs) and Debt Prepayment	- Bond redemption when a cost effective opportunity to redeem debt is available.
Flood Control District	- Property acquisition for the Prado Dam expansion project and flood channel widening and reinforcement.
Harbors, Beaches and Parks	- Construction of Laguna Coast Wilderness Park Interpretive Center and improvements of regional and city parks.
Other Governmental	Opening of Building A at the Theo Lacy Jail, Sheriff baseline operating costs and various capital projects in Ladera Ranch.

The remaining fund balances are *reserved*. Reserved fund balances primarily represent assets that are not available for spending or assets that are not yet available for expenditure due to restrictions imposed by parties outside the County. Note 12 of this report provides a complete list of the reserved fund balances which are titled "Assets Not Available for Appropriations", as well as Board reserves which are titled "Fund Balances Reserved by Board of Supervisors for a Future Purpose."

Comparative Analysis of Changes in Fund Balances

The following schedule presents a summary of revenues and other financing sources, expenditures and other financing uses, and the net changes in fund balances for each of the major governmental funds for the current and previous fiscal years.

MAJOR GOVERNMENTAL FUNDS COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES For the Year Ended June 30, 2003 (In Thousands)

	Revenues and Other Financing Sources		Expenditures and Other Financing Uses		Net Change in Fund Balances		Increase (Decrease)
	2003	2002	2003	2002	2003	2002	Change
General Fund	\$ 2,170,606	\$ 2,028,811	\$ 2,206,647	\$ 1,999,718	\$ (36,041)	\$ 29,093	\$ (65,134)
Roads	44,110	54,761	38,813	44,759	5,297	10,002	(4,705)
Public Library	32,936	30,848	32,679	28,741	257	2,107	(1,850)
Tobacco Settlement	36,249	36,913	35,548	26,884	701	10,029	(9,328)
Refunding and Recovery COPs & Debt Prepayment	130,681	286,483	92,163	85,655	38,518	200,828	(162,310)
Flood Control	87,075	233,567	58,721	79,106	28,354	154,461	(126,107)
Harbors, Beaches, and Parks	73,188	67,785	71,447	63,810	1,741	3,975	(2,234)
Total	\$ 2,574,845	\$ 2,739,168	\$ 2,536,018	\$ 2,328,673	\$ 38,827	\$ 410,495	\$ (371,668)

In the governmental funds, expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. As expenditures increase, revenues increase proportionately. In addition to the effects of expenditure-driven grants, the following information provides significant reasons for the net change in fund balances.

General Fund

The General Fund is the chief operating fund of the County. At the end of FY 2002-03, there was a decrease in net change in fund balances of \$65,134, despite the continued increase in revenues from motor vehicle licensing fees and property taxes. The primary factor that contributed to the decrease in net change in fund balances was the increase in expenditures for the County's contribution to Orange County Employees Retirement System (OCERS) due to the low returns in the County Investment Account and an increase in the cash requirement to cover the calculated Annual Required Contribution (ARC). For further information on the County's retirement plans, see Note 18 in the Notes to the Basic Financial Statements section.

Roads

This fund accounts for the maintenance and construction of roadways, and for specialized engineering services to other governmental units and the public. At the end of FY 2002-03, there was a decrease in net change in fund balances of \$4,705 primarily due to the reduction in revenue from the Traffic Congestion Relief Plan.

Public Library

This fund accounts for library services for the unincorporated areas as well as some of the incorporated areas within the County. There was a decrease in net change in fund balances of \$1,850 for the FY 2002-03 due to an increase in salaries and employment benefits for the additional staff hired for the newly constructed Foothill Ranch branch library and a reduction in State Public Library Fund (PLF) support to local libraries.

Tobacco Settlement

This fund accounts for tobacco settlement monies allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. Approval of the Master Settlement Agreement on behalf of California by the San Diego Superior Court occurred December 1998. On November 7, 2000, Orange County voters passed Measure H, also known as the Tobacco Settlement Funds Initiative. As of July 1, 2001, tobacco settlement revenue is allocated as follows: 80% for specified health care services and 20% for public safety programs. At the end of FY 2002-03, there was a decrease in net change in fund balances of \$9,328 primarily attributed to an increase in expenditures of Measure H eligible health care programs.

Lastly, due to the implementation of GASB Statement No. 34, similar-purpose funds were consolidated. As a result of these reclassifications, there was an overall decrease in net change in fund balances of the following major funds:

- Refunding and Recovery Certificates of Participation and Debt Prepayment decreased by \$162,310.
- Flood Control District decreased by \$126,107.
- Harbors, Beaches, and Parks decreased by \$2,234.

Proprietary Funds

The proprietary funds financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Airport and Waste Management operations, both of which are considered to be major

funds of the County. Conversely, the Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements with the individual fund data provided in combining statements, which can be found elsewhere in this report.

Comparative Analysis of Changes in Fund Net Assets

The following table presents the Enterprise Funds' actual revenues and other financing sources, expenses and transfers, and changes in fund net assets for the current and previous fiscal year.

ENTERPRISE FUNDS

COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

For the Year Ended June 30, 2003

(In Thousands)

	Revenues, Contributions and Transfers		Expenses and Transfers		Change in Fund Net Assets		Increase (Decrease)
	2003	2002	2003	2002	2003	2002	Change
Airport	\$ 101,314	\$ 82,782	\$ 74,712	\$ 77,549	\$ 26,602	\$ 5,233	\$ 21,369
Waste Management	117,265	115,873	92,524	84,951	24,741	30,922	(6,181)
Total	\$ 218,579	\$ 198,655	\$ 167,236	\$ 162,500	\$ 51,343	\$ 36,155	\$ 15,188

Airport

This fund accounts for major construction and self-supporting aviation-related activities rendered at John Wayne Airport (JWA), Orange County. At the end of FY 2002-03, there was an increase in change in fund net assets of \$21,369 that can be attributed to the following factors:

- A \$13,399 increase in capital contributions from the Federal Aviation Administration for grant reimbursement of Airport improvement projects including the completion of the federally mandated 100% Checked Baggage Screening Project.
- A \$6,691 decrease in transfers out due to the discontinuance of the airport project at the El Toro Marine Base.
- A \$6,191 increase in rents and concession revenues from parking, rental cars and airport concessions due to the increased number of passengers and level of travelers' activities in the airport.
- A \$2,587 increase in various expenses such as maintenance and repair of airport facilities and pavements and insurance costs due to the addition of terrorism coverage.
- A \$1,451 decrease in interest expense due to the refunding of Airport Revenue Refund Bonds, Series 1993 and principal reduction of Airport Revenue Refund Bonds, Series 1997.
- A \$1,343 increase in airport security costs.
- A \$1,307 increase in salaries and benefits due mainly to the conversion of sick leave to annual leave, a 4% general salary increase, higher retirement contribution rates, and higher health insurance premiums.

Waste Management

This fund is used to account for the operation, expansion, and closing of existing landfills and the opening of new landfills. Monies are collected through gate tipping fees, which users pay based primarily on tonnage. At the end of FY 2002-03, there was a decrease in change in fund net assets of \$6,181 due to the following factors:

- A \$5,926 increase in the closure and postclosure costs of the Santiago Canyon Landfill.
- A \$4,181 decrease in interest income due to the decline in interest yield.
- A \$3,994 increase in charges for services due to an increase in the amount of tonnage of solid waste disposed at the landfills.
- A \$2,539 decrease in operating leases due to the termination of equipment leases.

- A \$1,963 increase in compensated employee absences due to the conversion of sick leave to annual leave.
- A \$1,944 increase in consultant costs due to the revision of the Frank R. Bowerman Landfill Master Plan.

GENERAL FUND BUDGETARY HIGHLIGHTS

This section provides a summary of the primary factors involved in the variances between: 1) the Original Budget and the Final Amended Budget; and 2) the Final Amended Budget and the Actual Amounts for the General Fund. Refer to the Budgetary Comparison Statement for details on this budgetary comparison.

Original Budget vs. Final Amended Budget

The following provides a summary of the primary factors attributable to the increases in the General Fund final amended budget revenues compared to the original budget revenues:

Intergovernmental Revenues:

- An increased revenue budget of \$19,941 to restore funding in the Social Services Agency from the original State budget reduction of approximately 20% to the final State budget reduction of approximately 6%.
- A \$17,238 increase in revenues in the Health Care Agency (HCA) due to the Bio-Terrorism planning revenue transfer, anticipated reimbursement for the State mandated Handicapped and Disabled Students Mental Health program and Proposition 99 (*Tobacco Tax and Health Promotion Act*, which increased the state tobacco taxes) revenue adjustments based on the impact of the State's adopted budget.
- An increase of \$4,602 in budgeted revenues in the Registrar of Voters for reimbursement from the *Voting Modernization Bond Act of 2002 (Proposition 41)* and *Help America Vote Act of 2002*, which authorized the issuance of state bonds allowing counties to purchase modern voting equipment and replace outdated punch card systems, and which improved the administration of elections for Federal offices and replaced the punch card voting system, respectively.
- A \$4,398 increase in revenues in Sheriff-Coroner due to new grants for technology, equipment, and Domestic Preparedness.

Transfers In:

- A \$3,076 increase in the Social Services Agency revenue budget received from the Facilities Development and Maintenance Fund to cover the increased cost of the In-Home Supportive Services mandated entitlement program.
- An increase of \$2,240 in the Sheriff-Coroner due to funding for the Sheriff's portion of Mobile Data Computers (MDC) equipment through a budget adjustment that transferred the MDC program from the Sheriff-Coroner Communications Agency.

The following provides a brief summary of the primary factors attributable to the increases in the General Fund final amended budget expenditures compared to the original budget expenditures:

Miscellaneous:

Budget appropriations increased by \$2,000 to transfer funding from reserves to the Sheriff-Coroner Construction and Facilities Development Fund for the Central Jail Complex Fire Alarm System Construction Project.

District Attorney:

Because of cost cutting efforts and unanticipated revenues, the District Attorney had adequate funding to transfer \$9,589 to the Public Safety Sales Tax Excess Revenue Fund pursuant to Proposition 172 which was a voter-approved measure passed in 1994 establishing a ½ percent (0.5%) sales tax on an ongoing basis for local public safety programs.

Registrar of Voters:

An increase of \$4,602 for the initial payment of a new voting system.

Health Care Agency:

A \$16,419 increase to fund amendments to agreements for the Medical Services for Indigents Program, resulting from the State's adopted budget and a reallocation of Bio-Terrorism funding to the agency.

Sheriff-Coroner:

An \$18,748 increase was appropriated to fund the annual transfer to the Public Safety Sales Tax Excess Revenue Fund, in accordance with Proposition 172 (see District Attorney above).

Social Services Agency:

An increase of \$25,612 for the restoration of appropriations from the previously revised County budget to incorporate the impacts of the final state budget and to cover the costs of caseload growth.

Final Amended Budget vs. Actual Amounts

The following information provides a summary of the primary factors that caused the negative variance in the General Fund actual revenues compared to the final amended budget revenues:

Intergovernmental Revenues:

- A \$22,536 negative variance caused by unspent appropriations for expenditure-driven grants in the Social Services Agency, resulting in lower state and federal revenues.
- A \$22,335 negative variance in HCA, caused by: lower than anticipated State Aid revenues for the California Children Services (CCS) program due to a change in the Support and Care Costs payments; deferral of reimbursement for the State mandated Handicapped and Disabled Students Mental Health, and other State mandated programs; reduction to the State Bio-terrorism Planning grant; reduction in revenue from Proposition 36, which is a voter approved measure allowing non-violent drug possession offenders to receive substance abuse treatment instead of incarceration.
- A \$5,035 negative variance due to lower than anticipated Proposition 172 Public Safety Sales Tax revenues received by the Sheriff-Coroner resulting from the slow-moving economy.
- A \$4,614 negative variance in the Watershed Management Program due to work deferrals and unfinished projects.
- A \$3,953 negative variance caused by a decrease in actual caseloads for the California Work Opportunities and Responsibility to Kids (CalWORKs) assistance budget.

Other Revenues:

- A \$3,688 negative variance in the CalWORKs program assistance budget due to lower caseloads and related costs with a related decrease in revenue.
- A \$3,184 negative variance in the Miscellaneous Agency caused by not implementing the Probation Safety retirement rate.
- A \$2,536 negative variance in HCA because an anticipated one-time revenue did not materialize.
- A \$2,023 negative variance in the Aid to Families with Dependent Children (AFDC) - Foster Care because child support revenues were less than projected.

Transfers In:

- A negative variance of \$10,783 in HCA because expenditures for Tobacco Settlement eligible projects were lower than budgeted, resulting in decreased transfers from the Tobacco Settlement Revenue (TSR) Fund.
- A negative variance of \$8,962 in the Capital Projects budget due to a deferment of transfers from the Designated Special Revenue Fund to finance projects deferred to the next fiscal period, such as ADA compliance projects and deferred maintenance of the Central Justice Center.
- A \$4,356 negative variance in the Social Services Agency because budgeted transfers from the Facilities Development and Maintenance Fund to cover shortfalls in Child Welfare Services (CWS),

In-Home Supportive Services (IHSS) provider payments, and the Medi-Cal program were unnecessary due to cost saving efforts.

The following provides a summary of the primary factors causing the significant positive variances in General Fund actual expenditures as compared to the final amended budget expenditures:

Miscellaneous:

A positive variance of \$36,977 because there were no unexpected expenditures related to legal defense and settlements for County programs. This agency in the General Fund provides for such contingencies and is not anticipated to be spent unless the need arises.

County Executive Office:

A \$3,475 positive variance due to the reduction, redirection, postponement or cancellation of different issues and projects within the County Executive Office.

Child Support Services:

A positive variance of \$3,593 due to postponement of projects such as the file tracking system, learning resource center and payment processing front end system.

Watershed Management Program:

A \$9,358 positive variance due to lower than anticipated expenditures for the National Pollutant Discharge Elimination System (NPDES) program, deferred contributions to the Army Corp of Engineers for studies related to watershed projects, and deferral of three budgeted capital projects.

Capital Projects:

A \$40,418 positive variance due to unfinished capital projects, including three large multi-year Probation Department projects — a 60 Bed Expansion of Juvenile Hall, the replacement of 3 existing housing units, and ongoing construction of the department's facility maintenance projects, all of which were rebudgeted in FY 2003-04.

Data Systems Development Projects:

A \$4,095 positive variance due to budget reductions, which canceled some projects, while other data systems development projects were deferred to the following fiscal year.

Health Care Agency:

- A positive variance of \$24,396 due to under-expenditures in TSR funded projects, under-utilized master agreements and cost cutting measures in HCA.
- A positive variance of \$9,286 due to savings from early retirement of employees, employees taking time off rather than payoff and lower health insurance rates than anticipated.
- A \$5,229 positive variance due to payments for support and care associated with the CCS being paid directly by the State.

Sheriff Court Operations:

A positive variance of \$3,430 due to higher than anticipated vacant positions due to mid-year reduction of security services provided to courts as a result of insufficient State funding to the Court.

Sheriff-Coroner:

A positive variance of \$9,784 due to lower than anticipated expenditures for equipment maintenance resulting from work performed by an in-house technician, the deferral or reduction of some capital projects, and lower than anticipated expenditures for the MDC equipment.

Social Services Agency:

A \$33,867 positive variance due to deferral of some facility maintenance projects; cutting professional services contracts, temporary help, training, and costs applications to other departments; and under-spending of CalWORKs child care costs and the reduction of CalWORKs performance incentive funds for Children and Family Services relative caregiver/family preservation child care.

CalWORKs Family Group/Unemployed Parents:

A \$8,376 positive variance due to a lower number of caseloads for the CalWORKs assistance budget and lower average cost per caseload.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2003, the County's capital assets for both the governmental and business-type activities amounted to \$2,760,195 net of accumulated depreciation. The investment in capital assets includes land, structures and improvements, equipment, infrastructure (roads, bridges, flood channels, trails, traffic signals, and harbors), and construction in progress. The total increase in the County's investment in capital assets for the current year was 22% (a 26% increase for governmental activities and a 6% increase for business-type activities).

Capital assets for the governmental and business-type activities are presented below to illustrate changes.

CAPITAL ASSETS
(Net of Depreciation)
June 30, 2003
(In Thousands)

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2003	2002	2003	2002	2003	2002	% Change
Land	\$ 475,695	\$ 474,191	\$ 34,108	\$ 32,748	\$ 509,803	\$ 506,939	1%
Structures and Improvements	463,557	467,375	178,563	188,567	642,120	655,942	(2)%
Equipment	108,691	94,371	24,607	24,138	133,298	118,509	12%
Infrastructure	833,461	399,848	189,733	186,488	1,023,194	586,336	75%
Construction in Progress	389,746	366,604	62,034	31,311	451,780	397,915	14%
Total	\$ 2,271,150	\$ 1,802,389	\$ 489,045	\$ 463,252	\$ 2,760,195	\$ 2,265,641	22%

The following lists the significant expenditures for capital assets in FY 2002-03:

- \$14,852 for the construction of the Theo Lacy Jail Phase II (Building A).
- \$14,762 for the construction of street improvements, off-site transportation improvements and a Sports Park in Ladera Ranch.
- \$10,474 for the final construction phase of the Coroner Training Facility that will be the base of operations for the Coroner Division and includes classrooms and training facilities for use by jurisdictions from all over California.
- \$6,701 for the improvements of several flood channels to carry out the 100-year design flow in cooperation with the Orange County Flood Control District (OCFCD) and the Federal Emergency Management Agency (FEMA).
- \$5,911 for the final construction phase of the Katella Sheriff's Training Facility that includes administrative offices, classrooms, pistol range, offices for the Hazardous Devices Squad and a parking lot.
- \$4,316 for the widening of the El Toro Road in Mission Viejo.

- \$2,088 for the floor-by-floor rehabilitation of all 13 stories of the Central Justice Center, including the replacement of heating, ventilation and air-conditioning systems and asbestos abatement.
- \$1,878 for the renovation of the Theo Lacy Barracks A, B, C, D and E.
- \$1,700 for the design, construction and maintenance of Coyote Creek, which flows between Whittier Boulevard and La Habra Boulevard as an earthen channel.
- \$1,481 associated with the 800 MHz Countywide Coordinated Communications System, which included the installation of three Intellirepeater sites: two in Newport Beach and one in San Clemente.
- \$1,247 for the construction of facility improvement projects to make various county facilities compliant with ADA.
- \$1,150 for the installation of a rubber dam and pumps along the Lower Talbert Santa Ana River Channel to divert and clean the water.
- \$1,119 for repairs and the stabilization of badly eroded portions of Serrano Creek.

In addition to the significant expenditures listed above, the County recorded a capital contribution of approximately \$425,000 when the U.S. Army Corps of Engineers turned over primary responsibility for managing the Seven Oaks Dam to the County. Seven Oaks Dam is a part of the Santa Ana River Mainstem Project, which is discussed more thoroughly in Note 14 to the financial statements.

Additional information on the County's capital assets can be found in Note 4 of this report.

Commitments for Capital Expenditures. At the end of FY 2002-03, significant commitments for capital expenditures include the following:

- \$15,645 for flood control channel projects.
- \$15,554 for the construction of Laguna Canyon Road, State Route 73 to Interstate 405.
- \$14,112 for the Theo Lacy Jail Construction.
- \$10,374 for 60 bed expansion construction of the Juvenile Hall.

Additional information on the County's commitments for capital expenditures can be found in Note 14 of this report.

Long-Term Debt

At June 30, 2003, the County had a total debt obligation outstanding of \$1,491,433, excluding capital lease obligations, compensated absences and other liabilities. During the year, \$136,690 of the bonds were retired, while \$48,680 was added, which resulted in a net decrease of 5% on the County's outstanding bond obligation. The County is limited by law in issuing general obligation bonded debt to 1.25 percent of the last equalized property tax roll. However, this does not affect the financing of any of the County's planned facilities or services because as of the end of the fiscal year, the County had no net general obligation bonded debt. The County's debt obligations are in the form of revenue bonds, certificates of participation, and other forms of debt not covered by the general obligation debt limitation law.

The following table summarizes the County's outstanding bonds at June 30, 2003:

LONG-TERM DEBT BOND OBLIGATIONS							
June 30, 2003 (In Thousands)							
	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2003	2002	2003	2002	2003	2002	% Change
Revenue Bonds	\$ 287,282	\$ 296,747	\$ 208,490	\$ 239,325	\$ 495,772	\$ 536,072	(8)%
Certificates of Participation	647,409	673,934	--	--	647,409	673,934	(4)%
Pension Obligation Bonds	120,772	134,612	--	--	120,772	134,612	(10)%
Recovery Bonds	240,110	247,455	--	--	240,110	247,455	(3)%
Add: Premium on Bonds Payable	3,445	3,491	5,777	1,983	9,222	5,474	68%
Less: Discount on Bonds Payable	--	--	--	(1,822)	--	(1,822)	(100)%
Less: Deferred Amount on Refunding	(4,597)	(4,834)	(17,255)	(15,426)	(21,852)	(20,260)	8%
Total	\$ 1,294,421	\$ 1,351,405	\$ 197,012	\$ 224,060	\$ 1,491,433	\$ 1,575,465	(5)%

The following summarizes the County's long-term debt activity during FY 2002-03:

- *Airport Revenue Refunding Bonds, Series 2003.* On May 29, 2003, the County issued \$48,680 of Airport Revenue Refunding Bonds, Series 2003 at a premium of \$4,206. The proceeds of the bonds, together with certain monies on deposit with a trustee, were used to refund the outstanding Airport Revenue Refunding Bonds Series 1993, and to pay the costs of issuing the bonds. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3,781. The difference is reported as a deferred amount on refunding of 2003 Revenue Bonds. The Airport completed the refunding to reduce its debt service payments over the next 15 years by \$24,000 and obtain an economic gain of \$6,187. The Series 2003 Bonds constitute limited obligations of the County, payable solely from net revenues of the Airport. The Series 2003 bonds are issued on a parity with the County's Airport Revenue Refunding Bonds Series 1997, and the scheduled payment of principal and interest on the Series 2003 Bonds is insured by Financial Security Assurance, Inc. As of June 30, 2003, the outstanding principal amount of the Series 2003 was \$52,886.
- *Teeter Plan Revenue Bond Remarketing.* In October 2002, \$700 of the Series A Bonds were retired, reducing the outstanding 1995 Series Bonds to \$123,725. Series A through E bonds have all been converted from fixed rate to variable rate. Interest rates, determined on a weekly basis, have ranged from 0.85 percent to 1.95 percent payable monthly; and currently, the full balance is being remarketed weekly.

Additional information on the County's long-term debt activity can be found in Note 9 of this report.

Bond Ratings

The County continues to maintain the issuer ratings of Aa2 from Moody's Investors Service and A+ from Standard & Poor's. The rating report cited the County's continued prudent fiscal management, evidenced by a strong fiscal position and disciplined adherence to its strategic plan, focusing on debt reduction, as well as the diversified and healthy local economy, as the basis for the rating.

In FY 2002-03, there were several changes in the County's underlying debt ratings as compared to the previous year, namely:

- Pension Obligation Bonds, as rated by Moody's, improved from A2 to Aa2.
- 2002 Lease Revenue Bonds from Fitch Ratings went from not rated to AA-.
- Airport Revenue Bonds, as rated by Standard and Poor's, improved from A to A+.

The County maintains the following long-term underlying debt ratings:

LONG-TERM DEBT RATINGS

June 30, 2003

	Moody's	Fitch	Standard and Poor's
Airport Revenues Bonds	Aa3	A+	A+
Waste Management Revenue Bonds	A2	A+	--
Pension Obligation Bonds	Aa2	AA-	A
Recovery Bonds	Aa3	--	--
2002 Lease Revenue Bonds	A1	AA-	A
2001 Equipment Lease	A2	--	--
1996 Recovery Certificates of Participation	A1	AA-	--
1991 Parking Certificates of Participation	A1	--	--

OTHER POTENTIALLY SIGNIFICANT MATTERS

The County's management has determined that the following are significant matters that have a potential impact on the County's financial position or changes in financial position.

Governmental Activities

- **State Budget:** The Governor's January budget addressed an estimated FY 2003-04 shortfall of \$34,000,000 as a result of the economic downturn and declining revenues. A large element of the shortfall is a decline in receipts from the personal income tax on capital gains and stock options. On April 30, 2003, the Legislature approved a \$3,700,000 package that helped close the deficit. Included in the package were bills authorizing issuance of Pension Obligation Bonds to make the payment due to the State Employees Retirement Fund in FY 2003-04. The former Governor signed the FY 2003-04 State Budget on August 2, 2003. The final State budget balanced a general fund deficit with a combination of bond financing to cover the \$10,700,000 deficit from FY 2002-03, recognition of new Federal funds, tripling the vehicle license fees (VLF), recognizing other new revenues, and making program spending changes.

The FY 2002-03 State debt was to have been paid for beginning in FY 2004-05 by a sales tax/property tax swap known as the "triple flip." The state sales tax was to be raised by one-half cent dedicated to paying off the debt, with a corresponding reduction of one-half cent in the sales tax dedicated to local government. The lost sales tax dedicated to local government was to have been replaced with property tax currently going to education. Other state program spending cuts were to be made to continue the same funding level to education.

Subsequent to the adoption of the State budget with the above-outlined financing plan, the new State Governor proposed a revised financing plan to the State Legislature, which was approved by the Legislature and signed by the Governor on December 11, 2003. This plan proposes State Constitutional provisions to be voted on by the State's voters on March 2, 2004. The plan will finance the State's total FY 2002-03 and 2003-04 deficits of approximately \$15 billion with a deficit financing bond issue payable over 10 years. The bond will be financed by the same "triple flip" mechanism outlined above, except that the State sales tax increase to finance the bond debt will be only one-quarter percent, rather than one-half percent, with a corresponding reduction in local government sales taxes, offset by the transfer of property taxes from schools. The new Constitutional provisions will also require a balanced State budget in future years and the creation of a State Budget Stabilization

Account reserve of up to \$8 billion or five percent of the State budget, whichever is larger, beginning in FY 2006-07.

The VLF was tripled effective October 1, 2003, under the former Governor and then rescinded by the State's newly elected Governor in November. During the time the fees had been reduced, the State backfilled the reduction to hold counties and cities harmless. The State did not backfill these revenues for the months of July, August or September and plans to repay these revenues in August 2006. Due to the pledge of Orange County's VLF to pay bankruptcy recovery debt and the fact that VLF is a large portion of Orange County's general purpose revenues, we believe that Orange County qualifies under the hardship provisions and applied for hardship status. The State Controller made the full VLF payments to Orange County for July and August; however, the State has now requested the County to return those payments, since the State has failed to provide an appropriation for hardship cases. The October VLF payment was received in full, although the amount was smaller than usual due to amounts withheld for refunds and low collections at the Department of Motor Vehicles. In November, the State did not include a backfill payment to counties and it is unclear when or if counties will receive the backfill because there is no appropriation in the State Budget for the payment. During this year, the State has continued to make the intercept payment to the Trustee for bankruptcy recovery debt. The County is currently developing strategies to secure these funds and to make contingency budget plans if there is a reduction in these funds. Additional information on this topic can be found in Note 20 of this report.

With regard to other revenue and program spending impacts, the County adopted the impacts of the State's final adopted FY 2003-04 budget.

- Unfunded Actuarial Accrued Liability (UAAL): The Orange County Employees Retirement System (OCERS) was established in 1945 by the County Board of Supervisors under the provisions of the County Employees' Retirement Law of 1937. It is a cost-sharing, multiple-employer public employee retirement system that provides members with retirement, death, disability and cost-of-living benefits. Refer to Note 18 for additional information on the County's Retirement Plans. In the OCERS December 31, 2002 Comprehensive Annual Financial Report, the UAAL was reported as \$978,079. The County's contribution represents approximately 84% of the total contributions required of all participating entities. The County's contributions to OCERS will increase significantly to pay the amortized UAAL.
- Reimbursements for State Mandated Costs: The California State constitution requires the State to reimburse the County for costs incurred in complying with certain mandates. This reimbursement process is commonly referred to as Senate Bill (SB) 90. Due to the State budget shortfall in FY 2002-03, the State deferred reimbursement of all SB 90 mandated costs, which resulted in the County having to pay for these costs from other sources such as from the General Fund. As of June 30, 2003, the State owed the County approximately \$45,809 in SB 90 reimbursements. While the State is obligated to repay the County for these costs, no payment date has been specified. Additionally, the State has deferred SB 90 reimbursements for FY 2003-04.
- Youth Leadership Academy (YLA): \$8,400 in State construction grant funding was approved for the Probation Department to build a 90-bed leadership academy for 60 boys and 30 girls in a relatively remote area of Trabuco Canyon on County-owned land. The County appropriated an additional \$11,500 in general funds for this project to meet the match requirement for the construction grant, build a new access road to the facility and take other mitigation measures, as necessary, to minimize disruption to the surrounding community and environs. However, an adverse court ruling was rendered on August 16, 2002, on the adequacy of the Academy's environmental impact report and other associated issues that required an immediate suspension of construction efforts. In response, the Probation Department sought authorization and received State approval to retain the original \$8,400 of grant funds and relocate the Academy onto the Juvenile Hall property in Orange. Accordingly, the need for the \$19,900 that was budgeted for the Academy project will

continue, not only for the facility's construction, but also to defray the costs arising from the premature conclusion to the originally planned construction project in Trabuco Canyon.

- In-Home Supportive Services: On August 26, 2003, the Board of Supervisors approved terms and conditions for employees in the In-Home Supportive Services (IHSS) Public Authority. The contract term is from September 1, 2003 through September 30, 2004. The contract provided a \$0.89/hour wage increase effective September 1, 2003. It would also provide funding for a Health Care Trust Fund at the rate of \$0.60/hour effective January 1, 2004. The current year cost impact of this contract is \$9,770. Approximately 80% is funded by Federal and State sources with the remainder from the County General Fund. For FY 2003-04, \$1,200 was included in the General Fund budget for this cost increase.

Business-Type Activities

- Amended Airport Settlement Agreement: The County's 1985 Settlement Agreement (Agreement) with the city of Newport Beach and other parties resulted in a 20-year master plan for John Wayne Airport (Airport). The master plan provided for expansion of the Airport's facilities, imposed noise regulations on Airport flight operations, and capped the number of passengers served to 8.4 million. With the impending expiration of the Agreement, the feasibility of amending the Agreement was explored. As a result, Environmental Impact Report (EIR) 582 was drafted, supporting amendments to the Agreement and outlining a number of long-term facility and capacity alternatives for the Airport. The parties to the Agreement approved amendments to the Agreement. Subsequent to the Board's certification of EIR 582 on June 25, 2002, the parties to the Agreement agreed to modifications to the amended Agreement in response to requests from the airlines serving the Airport. On December 10, 2002, the Board accepted Addendum 582-1 to EIR 582 and approved modifications to the amended Agreement.

The amended Agreement includes capacity enhancing modifications. The number of regulated commercial carrier flights increases from 73 average daily departures (ADDs) to 85 ADDs, effective January 1, 2003, through December 31, 2015. The increase in regulated flights allows the number of passengers to increase from a maximum of 8.4 million annual passengers (MAP) to 10.3 MAP beginning January 1, 2003, through December 31, 2010, and increasing to 10.8 MAP on January 1, 2011, through December 31, 2015. The increase in passengers will be accommodated through the increase in the permitted number of passenger loading gates from 14 to 20. The number of cargo flights is also allowed to increase from two ADDs to four ADDs. The Airport is currently studying the feasibility of enhancing facilities to accommodate the allowed increase in flights and passengers.

Requests for Information

We hope that the preceding information has provided you with a general overview of the County's overall financial status. For questions or comments concerning information contained in this report, please contact the Auditor-Controller's Office, County of Orange, 12 Civic Center Plaza, Santa Ana, CA 92702 or you can access our Web site at <http://www.oc.ca.gov>.